Chapter 5
Bank Reconciliation

Objectives

After completing this chapter, you should be able to:

- Reconcile your checking account (page 138)
- Create bank reconciliation reports (page 144)
- Find errors during reconciliation (page 145)
- Correct errors found during reconciliation (page 148)
- Make corrections when QuickBooks automatically adjusts the balance in a bank account (page 149)
- Handle bounced checks (page 149)
- Reconcile credit card accounts and record a bill for later payment (page 155)
- Improve efficiency with Online Banking (page 158)

Restore this File

This chapter uses BankRec-12.QBW. To open this file, restore the BankRec-12.QBM file to your hard disk. See page 8 for instructions on restoring files. If you are using QuickBooks Premier Accountant, we recommend that you toggle to QuickBooks Premier General Business as described on page x.

As you write checks, withdraw money, make deposits, and incur bank charges, these transactions are recorded in QuickBooks. Then, at the end of each month, you must compare these transactions with your bank statement to ensure that each QuickBooks transaction matches the bank's records.

This process is called *reconciling*. It is a very important step in the overall accounting process and its primary goal is to ensure the accuracy of your accounting records.

In addition to reconciling bank accounts, you can also reconcile other accounts, such as credit card accounts, using the same process. For example, if you track each credit card transaction (charges, payments, interest charges, etc.) in a separate credit card liability account in QuickBooks, you should reconcile your QuickBooks credit card accounts with your monthly credit card statement.

In fact, you can reconcile almost any Other Current Asset, Fixed Asset, Credit Card, Other Current Liability, Long Term Liability, or Equity account using the same process presented in this chapter. However, even though QuickBooks *allows* you to reconcile many accounts, the primary accounts you'll reconcile are bank and credit card accounts since these types of accounts always have monthly statements.

In this chapter, you'll learn how to reconcile bank and credit card accounts, as well as how to find and correct errors in the reconciliation process.

Reconciling Bank Accounts

Figure 5-1 shows Academy Photography's bank statement for the checking account as of January 31, 2015. Before reconciling the account in QuickBooks, make sure you've entered all of the transactions for that account. For example, if you have automatic payments from your checking account (EFTs) or automatic charges on your credit card, it is best to enter those transactions before you start the reconciliation.

Business Checking Account

Statement Date: **January 31, 2015** *Page 1 of 1*

Summary:

The Previous Balance should match the Beginning Balance in the Begin Reconciliation Window.

Previous Balance as of 12/31/14:		$	18,283.60
Total Deposits and Credits:	+	$	3,386.02
Total Checks and Debits:	-	$	14,204.60
Statement Balance as of 1/31/15	**=**	**$**	**7,465.02**

Deposits and Other Credits:

DEPOSITS

Date	Description		Amount
22-Jan	Customer Deposit	$	249.54
30-Jan	Customer Deposit	$	1,950.00
31-Jan	Customer Deposit	$	1,177.86
	3 Deposits:	**$**	**3,377.40**

INTEREST

Date	Description		Amount
31-Jan	Interest Earned	$	8.62
	Interest:	**$**	**8.62**

Checks and Other Withdrawals:

CHECKS PAID:

Check No.	Date Paid		Amount
325	2-Jan	$	324.00
326	7-Jan	$	276.52
327	10-Jan	$	128.60
6001**	10-Jan	$	3,200.00
6003**	25-Jan	$	142.00
6004	26-Jan	$	123.48
	6 Checks Paid:	**$**	**4,194.60**

OTHER WITHDRAWALS/PAYMENTS

Date	Description		Amount
31-Jan	Transfer	$	10,000.00
	2 Other Withdrawals/Payments:	**$**	**10,000.00**

SERVICE CHARGES

Date	Description		Amount
31-Jan	Service Charge	$	10.00
	1 Service Charge:	**$**	**10.00**

Figure 5-1 Sample bank statement

COMPUTER PRACTICE

Using the sample data file for this chapter, follow these steps to reconcile the QuickBooks Checking account with the bank statement shown in Figure 5-1.

Step 1. Before you begin the reconciliation process, first review the account register to verify that all of the transactions for the statement period have been entered (e.g., deposits, checks, other withdrawals, and payments). You don't need to record the "bank-originated" transactions such as interest received and bank charges, because these transactions are recorded during the reconciliation process.

The Academy Photography sample data file for this section already has the deposits, checks, other withdrawals, and payments entered into the register.

Step 2. If the *Home* page is not already open, select the **Company** menu and then select **Home Page.**

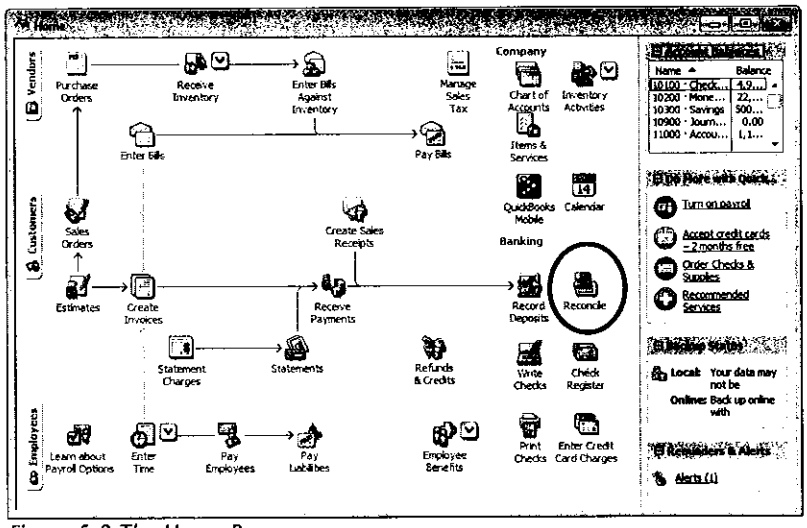


Figure 5-2 The Home Page

Step 3. Click the **Reconcile** Icon on the *Banking* section of the *Home* page (see Figure 5-2).

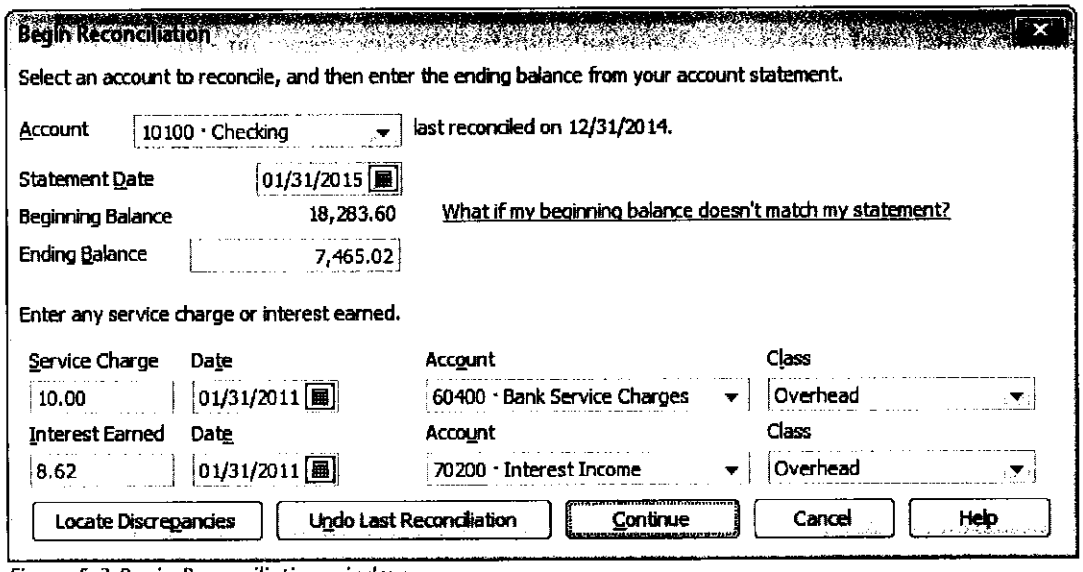


Figure 5-3 Begin Reconciliation window

Step 4. In the *Begin Reconciliation* window (see Figure 5-3), the *Account* field already shows *Checking*. The account drop-down list allows you to select other accounts to reconcile, however since *Checking* is the account you're reconciling, you don't need to change it now. Press **Tab**.

Step 5. Leave **01/31/2015** in the *Statement Date* field and press **Tab**.

The default statement date is one month after your last reconciliation date. Since this account was last reconciled on 12/31/2014, QuickBooks entered ***01/31/2015***. Before proceeding to the next field, confirm that this date matches your bank statement date. Correct it if necessary.

> **Tip:**
> If your bank does not date statements at the end of the month, ask the bank to change your statement date to the end of the month. This makes it easier to match the bank statement with your month-end reports in QuickBooks.

Step 6. Look for the *Previous Balance as of 12/31/14* on the bank statement (see Figure 5-1). Compare this amount with the *Beginning Balance* amount in the *Begin Reconciliation* window (see Figure 5-3). Notice that they are the same.

> **Note:**
> QuickBooks calculates the *Beginning Balance* field in the *Begin Reconciliation* window by adding and subtracting all previously reconciled transactions. If the beginning balance does not match the bank statement, you probably made changes to previously cleared transactions. See *Finding Errors During Bank Reconciliation* on page 145 for more information.

Step 7. Enter ***7,465.02*** in the *Ending Balance* field. This amount is the *Statement Balance as of 1/31/15* shown on the bank statement in Figure 5-1. Press **Tab**.

> **Note:**
> If you already recorded bank charges in the check register, skip Step 8 through Step 11 to avoid duplicate entry of the charges.

Step 8. Enter ***10.00*** in the *Service Charge* field and press **Tab**.

If you have any bank service charges or interest earned in the bank account, enter those amounts in the appropriate fields in the *Begin Reconciliation* window. When you enter these amounts, QuickBooks adds the corresponding transactions to your bank account register.

Step 9. Leave **01/31/2015** in the *Date* field and press **Tab**.

The default date for the service charge is one month after your last reconciliation. Since this account was last reconciled on 12/31/2014, QuickBooks entered ***01/31/2015***. Before proceeding to the next field, confirm this date matches your bank statement date. Correct it if necessary.

Step 10. Select ***Bank Service Charges*** from the *Account* drop-down list and press **Tab**.

Each time you reconcile, this field will default to the account you used on the last bank reconciliation. Confirm that this is the correct expense account before proceeding to the next field.

Step 11. Select ***Overhead*** from the *Class* drop-down list and press **Tab**.

> **Note:**
> If you already recorded interest income in the check register, skip Step 12 through Step 15 to avoid duplicate entry of the interest income.

Step 12. Enter ***8.62*** in the *Interest Earned* field and press **Tab**.

Step 13. Leave **01/31/2015** in the *Date* field and press **Tab**.

Step 14. Select ***Interest Income*** from the *Account* drop-down list and press **Tab**.

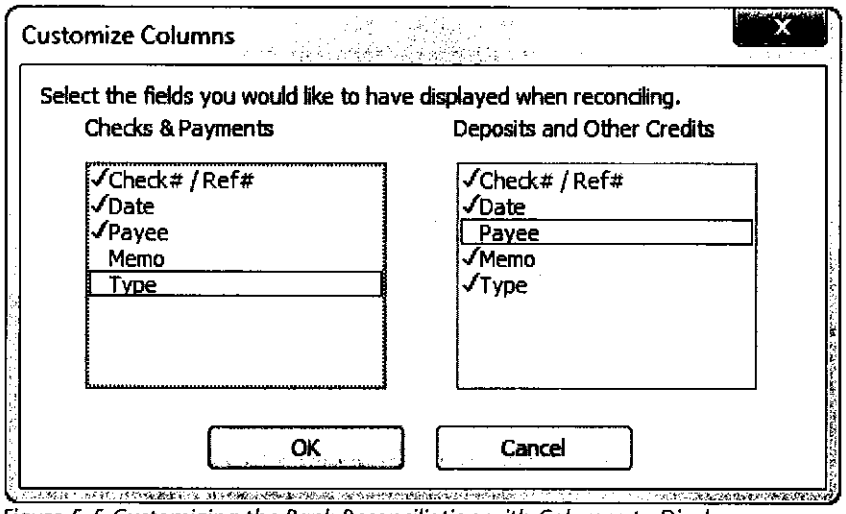


Figure 5-5 Customizing the Bank Reconciliation with Columns to Display

Step 19. After you've marked all the cleared checks and deposits, look at the *Difference* field. It should be **0.00**, indicating that your bank account is reconciled.

If the *Difference* field is not zero, check for errors. For help in troubleshooting your bank reconciliation, see *Finding Errors During Bank Reconciliation* on page 145.

> **Tip:**
> If you need to wait until another time to complete the bank reconciliation, you can click **Leave**. When you click **Leave**, QuickBooks will save all of your changes so you can complete the reconciliation later.

Step 20. If the *Difference* field is zero, you've successfully reconciled. Click ***Reconcile Now***. If you see a window offering online banking, click **OK** to close.

> **Note:**
> It is very important that you do not click **Reconcile Now** unless the *Difference* field shows **0.00**. Doing so will cause discrepancies in your accounting records. See page 149 for more information.

Step 21. The *Select Reconciliation Report* dialog box displays. The **Both** option is already selected, so click **Display** to view your reports on the screen (see Figure 5-6).

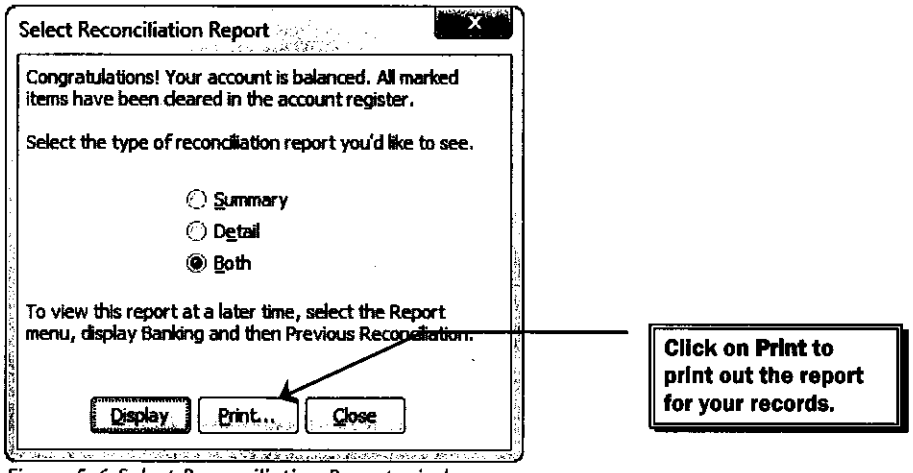


Figure 5-6 Select Reconciliation Report window

Step 22. Click **OK** on the *Reconciliation Report* window (see Figure 5-7).

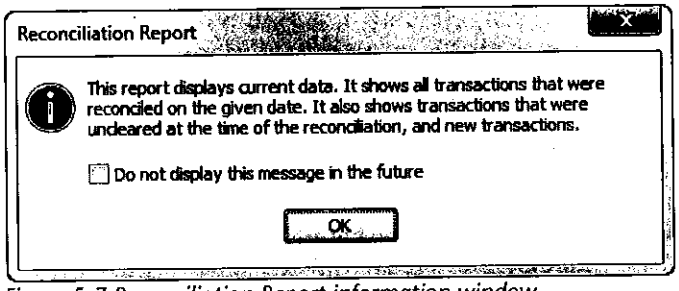
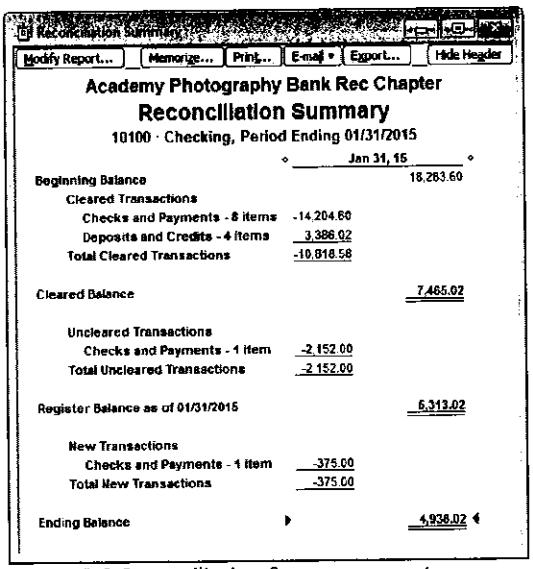


Figure 5-7 Reconciliation Report information window

Step 23. QuickBooks creates both a *Reconciliation Summary* report (Figure 5-8) and a *Reconciliation Detail* report (Figure 5-9). The length of the detail report will depend upon how many transactions you cleared on this reconciliation and how many uncleared transactions remain in the account.



Reconciliation Summary

Modify Report... | Memorize... | Print... | E-mail | Export... | Hide Header

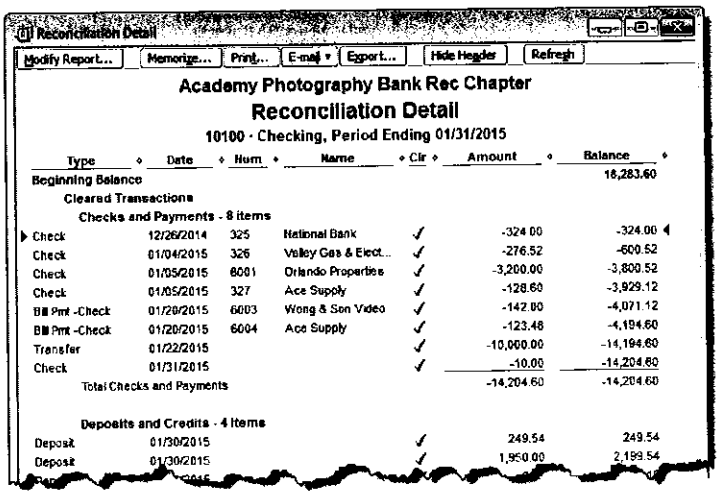
Academy Photography Bank Rec Chapter

Reconciliation Summary

10100 · Checking, Period Ending 01/31/2015

	Jan 31, 15	
Beginning Balance		18,283.60
Cleared Transactions		
Checks and Payments - 8 items	-14,204.60	
Deposits and Credits - 4 items	3,386.02	
Total Cleared Transactions	-10,818.58	
Cleared Balance		7,465.02
Uncleared Transactions		
Checks and Payments - 1 item	-2,152.00	
Total Uncleared Transactions	-2,152.00	
Register Balance as of 01/31/2015		5,313.02
New Transactions		
Checks and Payments - 1 item	-375.00	
Total New Transactions	-375.00	
Ending Balance		4,938.02

Figure 5-8 Reconciliation Summary report



Reconciliation Detail

Modify Report... | Memorize... | Print... | E-mail | Export... | Hide Header | Refresh

Academy Photography Bank Rec Chapter

Reconciliation Detail

10100 · Checking, Period Ending 01/31/2015

Type	Date	Num	Name	Clr	Amount	Balance
Beginning Balance						18,283.60
Cleared Transactions						
Checks and Payments - 8 items						
Check	12/26/2014	325	National Bank	✓	-324.00	-324.00
Check	01/04/2015	326	Valley Gas & Elect...	✓	-276.52	-600.52
Check	01/05/2015	6001	Orlando Properties	✓	-3,200.00	-3,800.52
Check	01/05/2015	327	Ace Supply	✓	-128.60	-3,929.12
Bill Pmt -Check	01/20/2015	6003	Wong & Son Video	✓	-142.00	-4,071.12
Bill Pmt -Check	01/20/2015	6004	Ace Supply	✓	-123.48	-4,194.60
Transfer	01/22/2015			✓	-10,000.00	-14,194.60
Check	01/31/2015			✓	-10.00	-14,204.60
Total Checks and Payments					-14,204.60	-14,204.60
Deposits and Credits - 4 items						
Deposit	01/30/2015			✓	249.54	249.54
Deposit	01/30/2015			✓	1,950.00	2,199.54

Figure 5-9 Reconciliation Detail report

Step 24. Close all open report windows.

Bank Reconciliation Reports

Each time you complete a bank reconciliation, QuickBooks walks you through creating a bank reconciliation report for that reconciliation. You can recreate your bank reconciliation reports at any time by following the steps below.

> **Note:**
> If you are using QuickBooks Pro you can create Bank Reconciliation reports for the most recently reconciled month only. QuickBooks Premier allows you to view and print bank reconciliation reports for all bank reconciliations performed using QuickBooks versions 2002 or later. The examples and screenshots in this section apply to QuickBooks Premier.

COMPUTER PRACTICE

Step 1. From the *Reports* menu select **Banking** and then select **Previous Reconciliation**. The *Select Previous Reconciliation Report* window displays (see Figure 5-10).

Step 2. Confirm that **Checking** is selected in the *Account* field.

If you have more than one bank account, you can select another bank account using the *Account* drop-down list.

Step 3. Confirm that **01/31/2015** is selected in the *Statement Ending Date* field.

QuickBooks automatically selects the report for your most recent bank reconciliation. You can select another report by highlighting the statement date in this section.

Step 4. Confirm that **Detail** is selected in the *Type of Report* section.

Step 5. Confirm that **Transactions cleared at the time of reconciliation** in the *In this report, include* section is selected. When you select this option, QuickBooks displays an Adobe Acrobat PDF file with the contents of the reconciliation report. The Acrobat (PDF) report does not include any changes you may have made to reconciled transactions. See Figure 5-10.

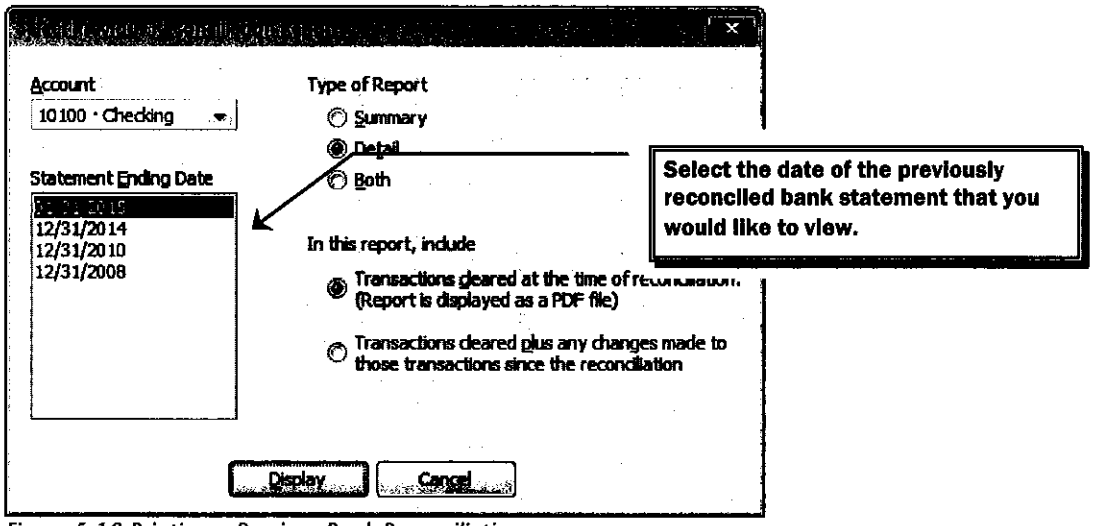


Figure 5-10 Printing a Previous Bank Reconciliation

Step 6. Click **Display** to view your bank reconciliation reports on screen.

Note:
If your screen does not show the Balance column in the window shown in Figure 5-11, you need to set your Printer Setup settings to fit the report to 1 page wide before you perform the bank reconciliation. This is because Acrobat creates the report when you finish the reconciliation and uses the settings in your Printer Setup to determine how to lay out the page.

If you have already created the report, you can undo the reconciliation (see page 146) and then select *Printer Setup* from the *File* menu. When the *Printer setup* window displays, select *Report* from the *Form Name* drop down list. At the bottom of the window you can check the *Fit report to* option and enter *1* for the number of pages wide you want reports to display, as illustrated below.

☑ Fit report to 1 page(s) wide

Academy Photography Bank Rec Chapter
Reconciliation Detail
10100 · Checking, Period Ending 01/31/2015

Type	Date	Num	Name	Clr	Amount	Balance
Beginning Balance						18,283.60
Cleared Transactions						
Checks and Payments - 8 items						
Check	12/26/2014	325	National Bank	X	-324.00	-324.00
Check	1/4/2015	326	Valley Gas & Electric	X	-276.52	-600.52
Check	1/5/2015	6001	Orlando Properties	X	-3,200.00	-3,800.52
Check	1/5/2015	327	Ace Supply	X	-128.60	-3,929.12
Bill Pmt -Check	1/20/2015	6003	Wong & Son Video	X	-142.00	-4,071.12
Bill Pmt -Check	1/20/2015	6004	Ace Supply	X	-123.48	-4,194.60
Transfer	1/22/2015			X	-10,000.00	-14,194.60
Check	1/31/2015			X	-10.00	-14,204.60
Total Checks and Payments					-14,204.60	-14,204.60
Deposits and Credits - 4 items						
Deposit	1/30/2015			X	249.54	249.54
Deposit	1/30/2015			X	1,950.00	2,199.54
Deposit	1/31/2015			X	8.62	2,208.16
Deposit	1/31/2015			X	1,177.86	3,386.02
Total Deposits and Credits					3,386.02	3,386.02
Total Cleared Transactions					-10,818.58	-10,818.58
Cleared Balance					-10,818.58	7,465.02
Uncleared Transactions						
Checks and Payments - 1 item						
Check	1/31/2015	328	National Bank		-2,152.00	-2,152.00
Total Checks and Payments					-2,152.00	-2,152.00
Total Uncleared Transactions					-2,152.00	-2,152.00

Figure 5-11 Adobe Acrobat (PDF) bank reconciliation report – your screen may vary

Step 7. Close the *Reconciliation Detail* report.

Note:
If you prefer to create a normal QuickBooks reconciliation report (as opposed to an Acrobat PDF report), select the option, *Transactions cleared plus any changes made to those transactions since the reconciliation* in Step 5 above.

Finding Errors During Bank Reconciliation

If you have finished checking off all of the deposits and checks but the *Difference* field at the bottom of the window does not equal zero, there is an error (or discrepancy) that must be found and corrected. To find errors in your bank reconciliation, try the following steps:

Step 1: Review the Beginning Balance Field

Verify that the amount in the *Beginning Balance* field matches the beginning balance on your bank statement. If it does not, you are not ready to reconcile. There are two possibilities for why the beginning balance will no longer match to the bank statement:

1. One or more reconciled transactions were voided, deleted, or changed since the last reconciliation; and/or,
2. The checkmark on one or more reconciled transactions in the account register was removed since the last reconciliation.

To correct the problem you have two options:

Option 1: Use the Reconciliation Discrepancy Report to Troubleshoot

Review the report for any changes or deletions to cleared transactions. The *Type of Change* column shows the nature of the change to the transaction. Notice on the first line that a user deleted a cleared check. On the second line of the report a user changed the amount of a check.

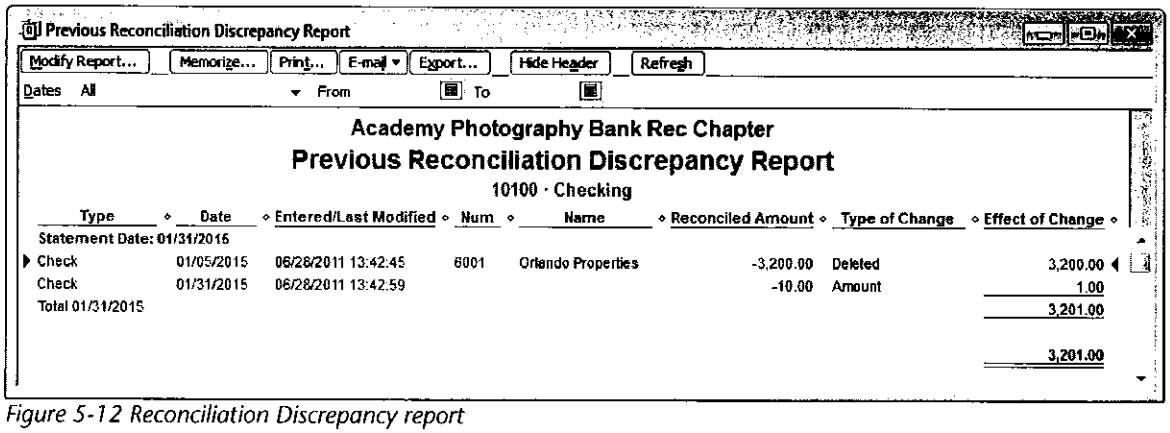


Figure 5-12 Reconciliation Discrepancy report

1. For each line of the report with "Deleted" in the *Type of Change* column, re-enter the deleted transaction. Then, use the *Bank Reconciliation* window to re-reconcile the transaction that had been deleted.
2. For each line of the report with "Amount" in the *Type of Change* column, double-click the transaction in the *Reconciliation Discrepancy* report to open it (i.e., QuickZoom). Then, change the amount back to the reconciled amount.

After returning all transactions to their original state (as they were at the time of the last reconciliation), you can then proceed to investigate whether the changes were necessary, and if so, enter adjustment transactions.

Option 2: Undo the Bank Reconciliation

The *Previous Reconciliation Discrepancy* report only shows changes to cleared transactions since your most recent bank reconciliation. If the beginning balance was incorrect when you performed previous bank reconciliations, the *Previous Reconciliation Discrepancy* report will not fully explain the problem.

If this is the case, the best way to find and correct the problem is to undo the previous reconciliation(s).

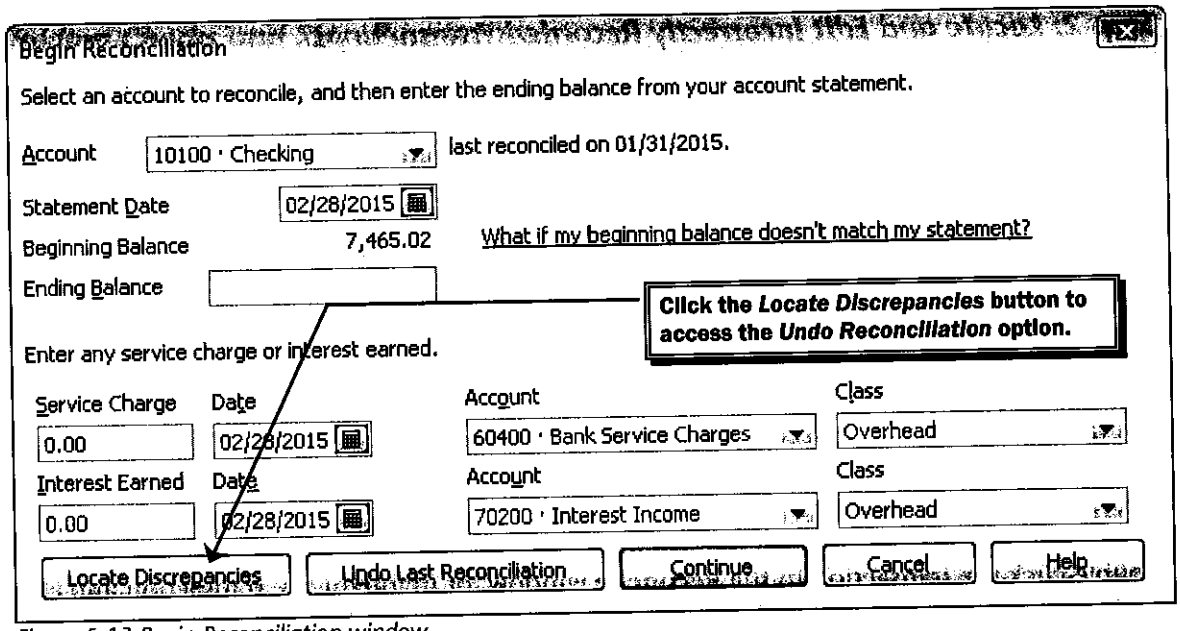


Figure 5-13 Begin Reconciliation window

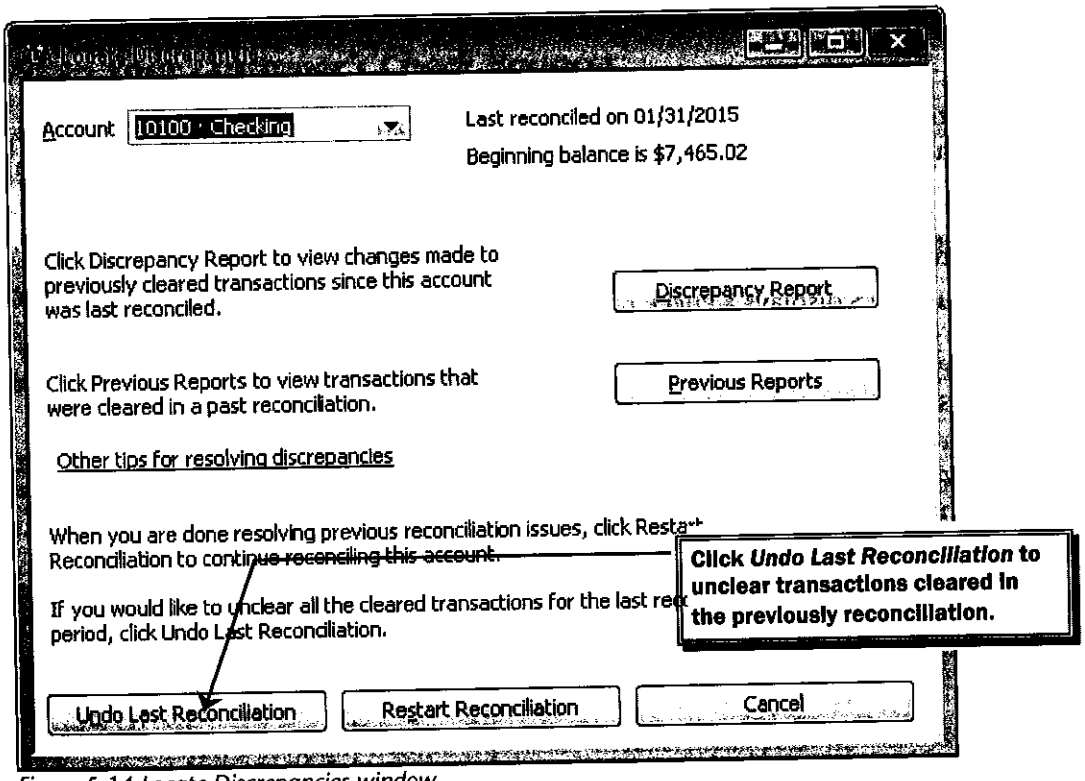


Figure 5-14 Locate Discrepancies window

Note:
When you undo a reconciliation, QuickBooks resets your beginning balance to the previous period. However, the bank service charges and interest income that you entered in the prior reconciliation will remain in the check register and will not be deleted.

Therefore, do not enter bank services charges and interest income when repeating the bank reconciliation. Instead, clear those transactions along with the other checks and deposits when you re-reconcile the account.

Step 2: Locate and Edit Incorrectly Recorded Transactions

When you find a discrepancy between a transaction in QuickBooks and a transaction on the bank statement, you need to correct it. You will use different methods to correct the error, depending upon the date of the transaction.

Correcting or Voiding Transactions in the Current Accounting Period

If you find that you need to correct a transaction in QuickBooks and the transaction is dated in the **current accounting period** (i.e., a period for which financial statements and/or tax returns have not yet been issued), correct the error as described in the following paragraphs.

If You Made the Error

If you made an error in your records, you must make a correction in QuickBooks so that your records will agree with the bank. For example, if you wrote a check for $400.00, but you recorded it in QuickBooks as $40.00, you will need to change the check in QuickBooks. Double-click the transaction in the **Reconcile** window, or highlight the transaction and click **Go To**. Make the correction, and then click **Save & Close**. This will return you to the *Reconcile* window and you will see the updated amount.

If the Bank Made the Error

If the bank made an error, enter a transaction in the bank account register to adjust your balance for the error and continue reconciling the account. Then, contact the bank and ask them to post an adjustment to your account. When you receive the bank statement showing the correction, enter a subsequent entry in the bank account register to record the bank's adjustment. This register entry will show on your next bank reconciliation, and you can clear it like any other transaction.

For example, Figure 5-15 displays a check register with an adjusting entry of $90.00 on 1/31/2015 where the bank made a deposit error during the month. The $90.00 shortage is recorded on the *Payment* side of the check register so that the register will reconcile with the bank statement. Subsequently, another adjusting entry is made on the *Deposit* side of the check register to record the bank's correction of the previous month's deposit. The $90.00 deposit will show on February's bank statement and can be cleared during the reconciliation process. Notice that *both* adjusting entries in the register are recorded to the same account, *Reconciliation Discrepancies*.

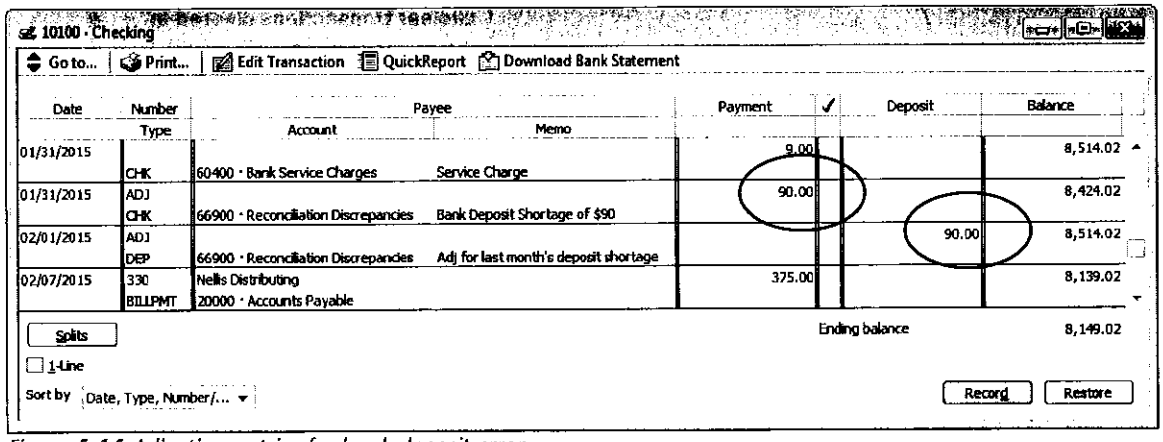


Figure 5-15 Adjusting entries for bank deposit error

Voiding Checks and Stop Payments

When you find a check dated in the **current accounting period** that you know will not clear the bank (e.g., if you stop payment on a check), you will need to void the check. Double-click the check from the **Reconcile** window. Select the **Edit** menu and then select **Void Check.** Click **Save & Close** to return to the *Reconcile* window.

When QuickBooks Automatically Adjusts your Balance

If the difference is not zero when you click **Reconcile Now** in the *Reconcile* window, QuickBooks creates a transaction in the bank account for the difference. The transaction is coded to the *Reconciliation Discrepancies* expense account. You should not leave this transaction in the register, but research why the discrepancy exists and properly account for it. A balance in this account usually indicates an over- or under-statement in net income.

Handling Bounced Checks

Banks and accountants often refer to bounced checks as NSF (non-sufficient funds) transactions. This means there are insufficient funds in the account to cover the check.

When Your Customer's Check Bounces

If your bank returns a check from one of your customers, enter an NSF transaction in the banking account register.

For example, Bob Mason bounced the check #2526 for $1,177.86 and the bank charged the Company $10.00. Complete the steps below to complete the NSF transaction.

COMPUTER PRACTICE

Step 1. Open the **Checking** check register.

Step 2. If necessary, choose **Date, Type, Number** from the *Sort by* drop down list at the bottom of the register.

Step 3. Enter two transactions, both dated 2/8/2015, as shown in Figure 5-16 – one for the amount of the check that bounced and one for the fee charged by the bank.

Notice that the bounced check is coded to Accounts Receivable. This transaction creates a receivable from the customer that will show in your A/R reports and customer *Statements* until the customer repays you.

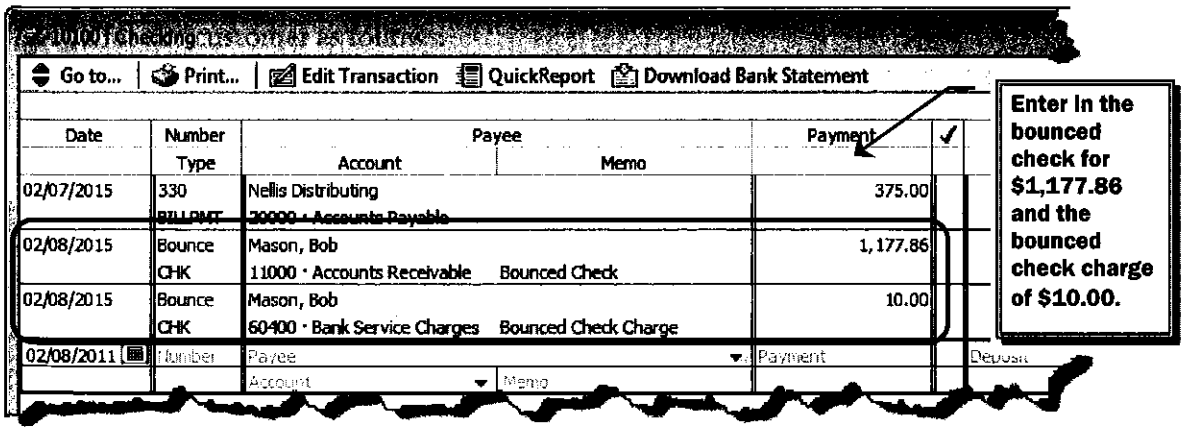
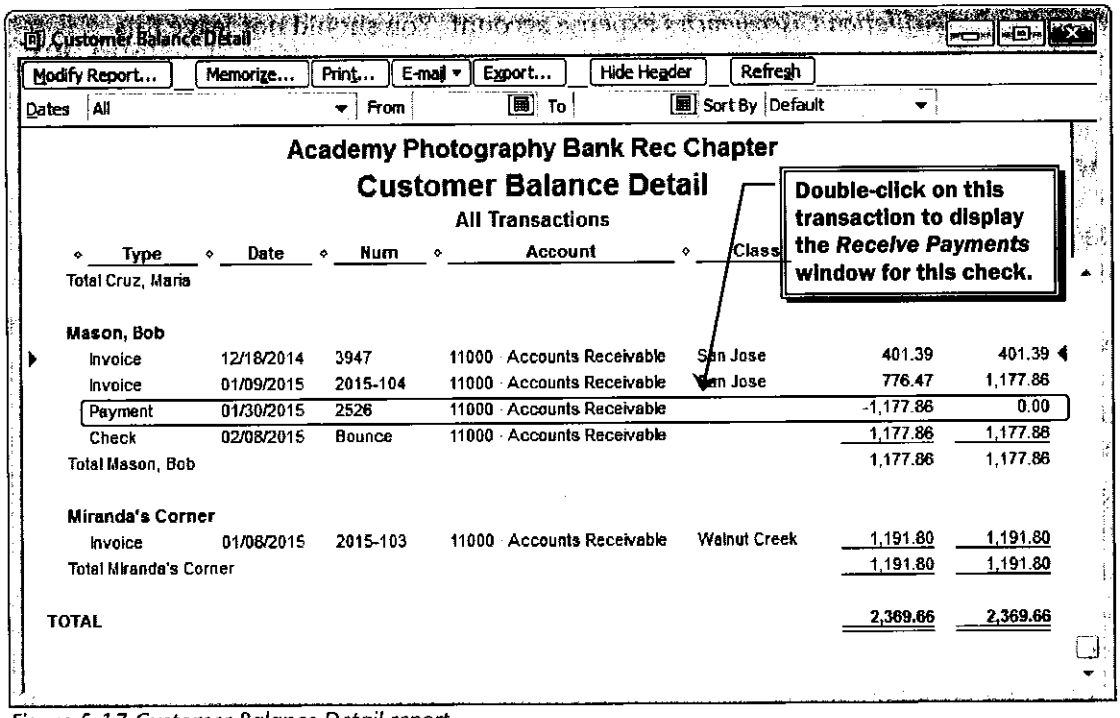


Figure 5-16 Add two transactions to your Checking register

> **Note:**
> If the bounced check was *not* a payment for one of your *Invoices* (i.e., not recorded to Accounts Receivable), skip Step 4 through Step 9.

Step 4. After you enter the bounced check, select the **Reports** menu, select **Customers and Receivables,** and then select **Customer Balance Detail** (see Figure 5-17).

Step 5. Double-click the payment transaction (#2526 on 01/30/2015) in the **Customer Balance Detail** report to view the *Receive Payments* window you used to record the check from your customer (see Figure 5-17). You may need to scroll to the bottom of the report.



Type	Date	Num	Account	Class		
Total Cruz, Maria						
Mason, Bob						
Invoice	12/18/2014	3947	11000 · Accounts Receivable	San Jose	401.39	401.39
Invoice	01/09/2015	2015-104	11000 · Accounts Receivable	San Jose	776.47	1,177.86
Payment	01/30/2015	2526	11000 · Accounts Receivable		-1,177.86	0.00
Check	02/08/2015	Bounce	11000 · Accounts Receivable		1,177.86	1,177.86
Total Mason, Bob					1,177.86	1,177.86
Miranda's Corner						
Invoice	01/08/2015	2015-103	11000 · Accounts Receivable	Walnut Creek	1,191.80	1,191.80
Total Miranda's Corner					1,191.80	1,191.80
TOTAL					2,369.66	2,369.66

Figure 5-17 Customer Balance Detail report

Step 6. In the *Receive Payments* window click in the check column (✓) next to the original *Invoices,* both 3947 on 12/18/2014 and 2015-104 on 1/9/2015 to un-apply the payments (see Figure 5-18).

Step 7. Next, click in the checkmark column (✓) next to the bounced check transaction you recorded in Step 3 above. You'll see this transaction in the *Receive Payments* window.

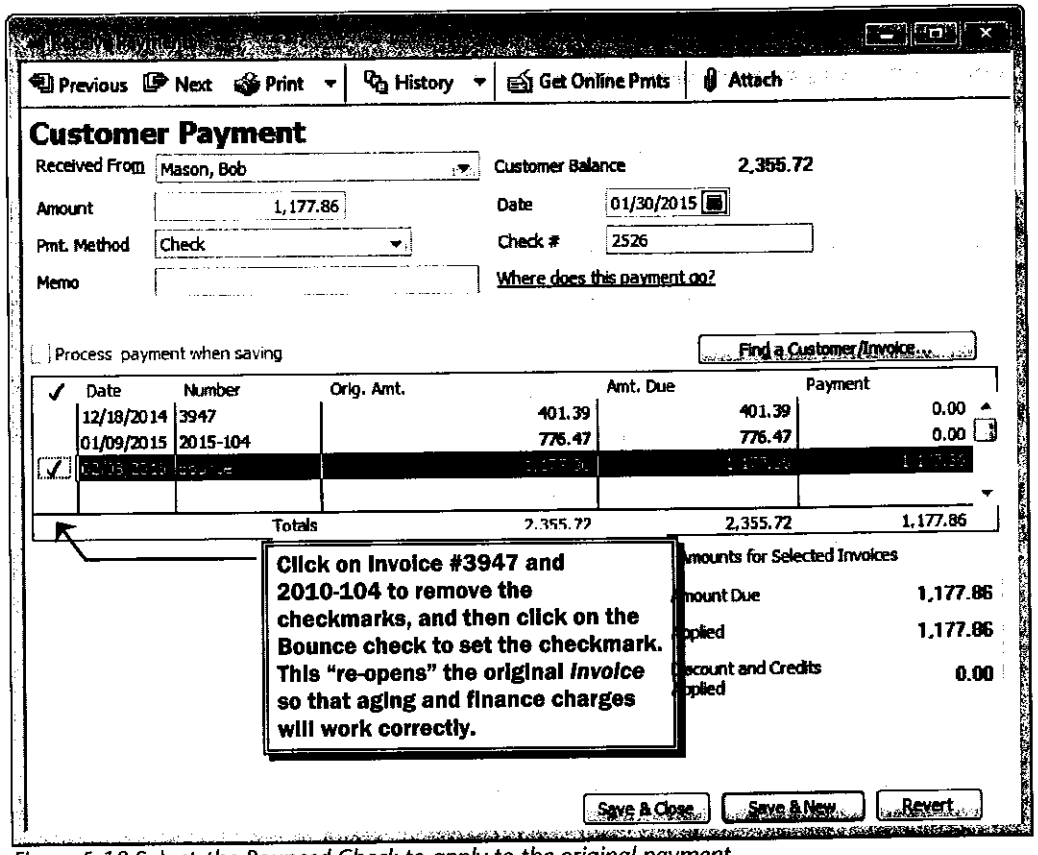


Figure 5-18 Select *the Bounced Check to apply to the original payment*

Step 8. Click **Save & Close** and then click **Yes** in the *Recording Transaction* dialog box.

Step 9. Close the **Customer Balance Detail** report.

> **Note:**
> The payment is reapplied to the bounced check so that the aging and finance charge calculations of the original *Invoice* are restored. If you did not edit the *Receive Payment* window in this way, the Accounts Receivable aging would be incorrect because QuickBooks would still think the original check (the one that bounced) had paid the *Invoice*. Since that check bounced, we want the original *Invoice* to show as unpaid until the customer actually makes a valid payment.

Next, if you charge your customers a service fee for processing their NSF check, create an *Invoice* for the customer as follows:

Step 10. Create an **Other Charge** *Item* called ***NSF Charge,*** as shown in Figure 5-19.

a) Click the **Items & Services** icon on the *Home* Page.

b) Press **Ctrl+N** to display the *New Item* window.

c) Enter fields to make your screen match Figure 5-19. Click **OK** to create the new *Item*.

d) Close the *Item List*.

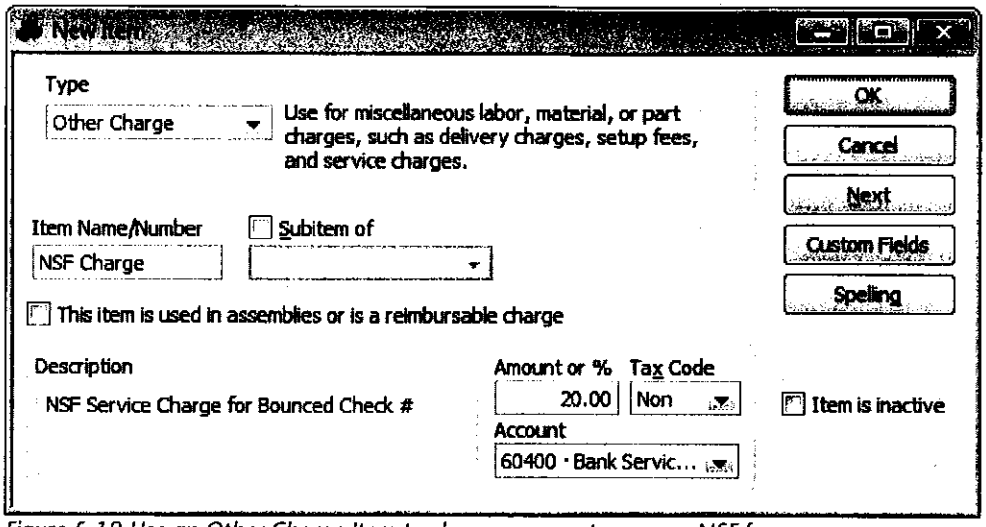


Figure 5-19 Use an Other Charge Item to charge your customers an NSF fee

Step 11. If you see a window offering *Professional Service Forms*, press **OK** to clear the window.

Step 12. Create an *Invoice* for the amount for the NSF charge as shown in Figure 5-20. Change the *Invoice #* to ***2526Bounce*** and the terms to **Due Upon Receipt**. If necessary, choose **Academy Photo Service Invoice** in the *Template* field.

Step 13. Fill out the rest of the fields on the *Invoice* to match Figure 5-20.

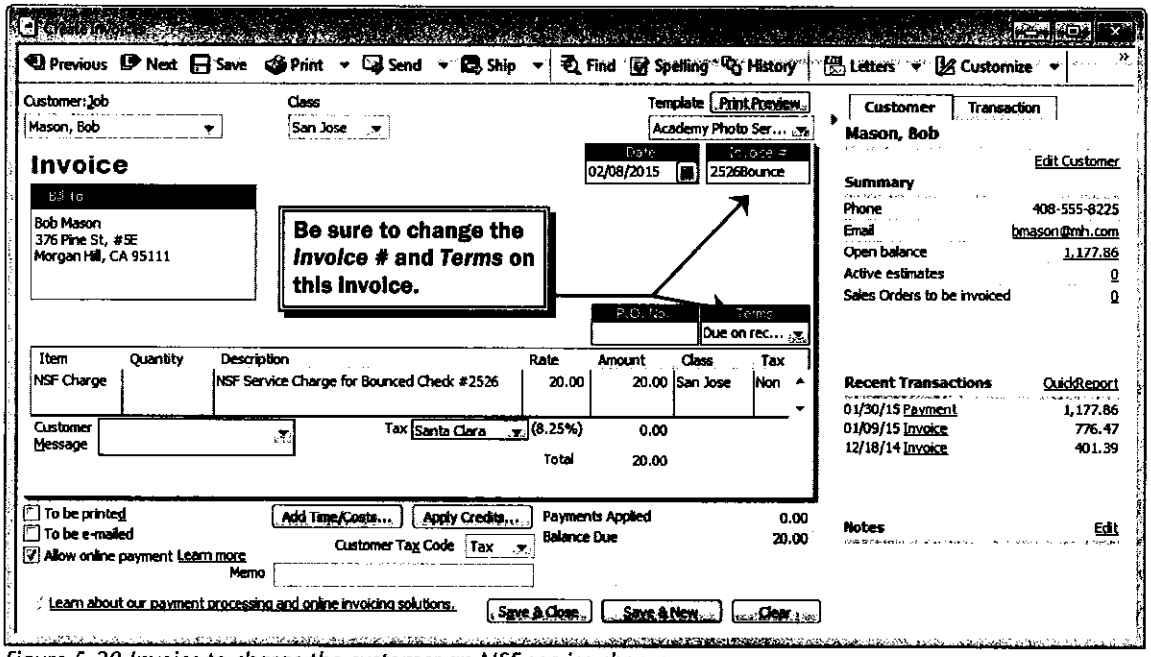


Figure 5-20 Invoice to charge the customer an NSF service charge

Step 14. When you add the *NSF Charge Item* to the *Invoice*, QuickBooks displays a warning that says, "This item is associated with an expense account." Click **OK**.

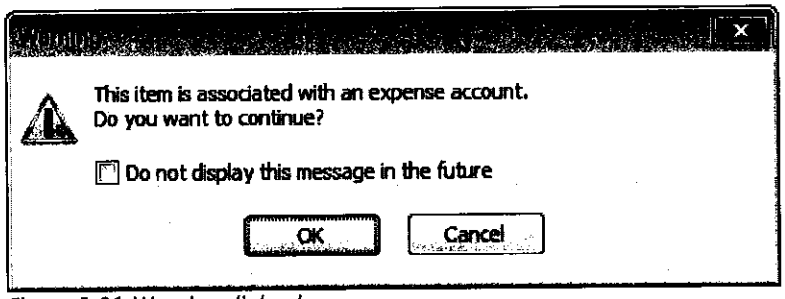


Figure 5-21 Warning dialog box

Step 15. Click **Save & Close** to record the *Invoice.*

Step 16. Since you changed the terms on this *Invoice* to *Due Upon Receipt,* QuickBooks asks if you want to make the *Due Upon Receipt* terms the default for Bob Mason. Click **No** on this window since you will use the *Net 30* terms on future *Invoices* for this customer.

> **Tip:**
> You will need to notify the customer of bounced check and the NSF fee. You can do this by sending the customer a *Statement.* For more information on printing *Statements,* see page 80
>
> **The accounting behind the scenes:**
> The bounced check you entered in the register increases (debits) Accounts Receivable and reduces (credits) the Checking account for the amount of the original check that bounced. The *Invoice* increases (debits) Accounts Receivable and decreases (credits) Bank Service Charges for the amount of NSF fees you are charging the customer.

Receiving and Depositing the Replacement Check

COMPUTER PRACTICE

To record the transactions for receiving and depositing a replacement check, follow these steps:

Step 1. Select the **Customers** menu, and then select **Receive Payments.**

Step 2. In this example, Bob Mason sent a replacement check #2538 on 2/10/15 for $1,197.86 that includes the amount of the check plus the NSF service charge of $20.00. Fill in the customer payment information as shown in Figure 5-22.

Make sure you apply the payment against the original *Invoices* and the service charge *Invoice* you just created in Figure 5-20.

Step 3. Click **Save & Close.**

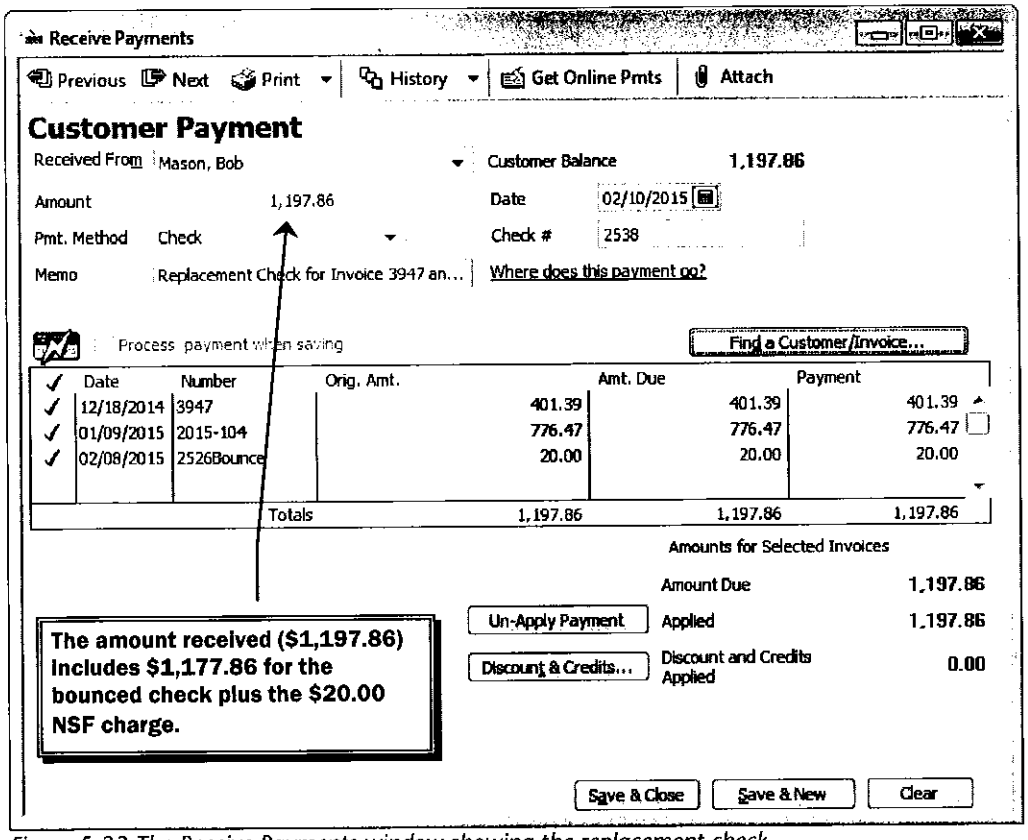


Figure 5-22 The Receive Payments window showing the replacement check

Next, add the replacement check to your next deposit just as you would any other check.

Step 4. Select the **Banking** menu and then select **Make Deposits** (see Figure 5-23).

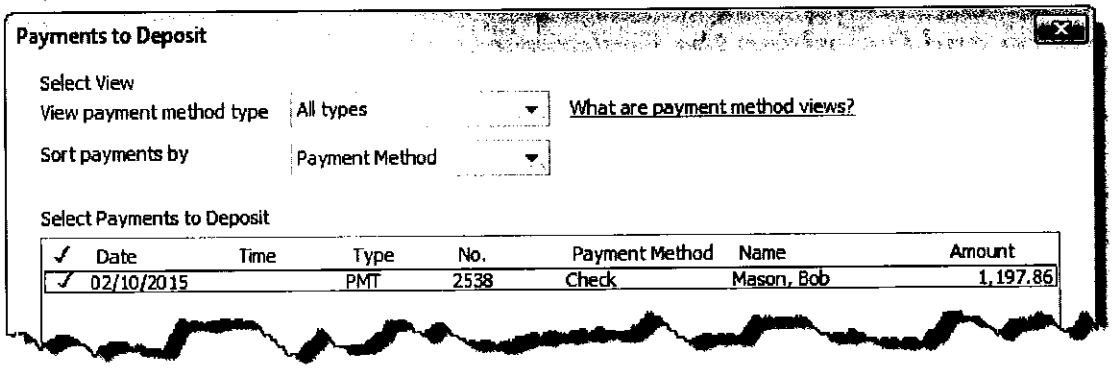


Figure 5-23 Add the replacement check to your deposit

Step 5. In the *Payments to Deposit* window, select check #2538 as shown in Figure 5-23 and then click **OK** at the bottom of the window.

Step 6. In the *Make Deposits* window, confirm that **Checking** in the *Deposit to* field is selected and that 02/10/2015 displays in the date field (see Figure 5-24). Then, click **Save & Close** at the bottom of the window.

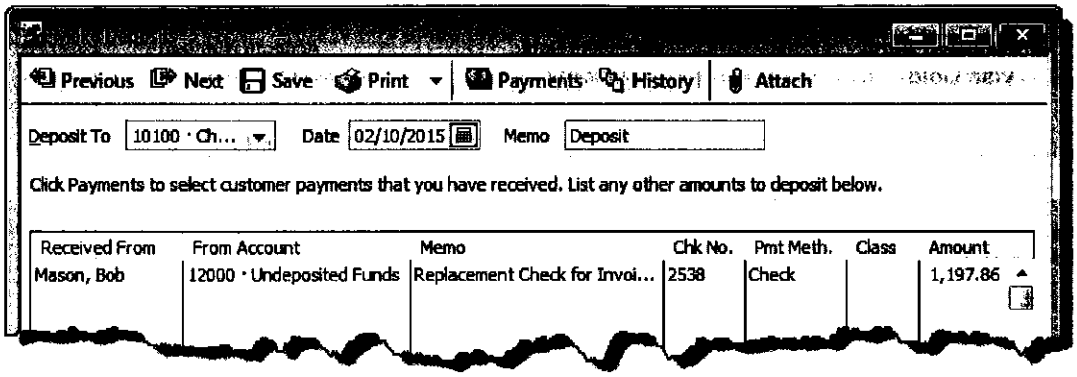


Figure 5-24 Make Deposits window

Step 7. Close the Checking register.

When Your Check Bounces

If you write a check that overdraws your account and your bank returns the check, follow these steps:

1. Decide with your vendor how you will handle the NSF Check (e.g., send a new check, redeposit the same check, or pay by credit card).
2. When the bank sends you the notice that your check was returned, there will be a charge from your bank. Enter a transaction in the bank account register. Code the transaction to Bank Service Charges and use the actual date that the bank charged your account.
3. If your balance is sufficient for the check to clear, tell the vendor to redeposit the check.
4. If your balance is not sufficient, consider other ways of paying the vendor, such as paying with a credit card. Alternatively, negotiate delayed payment terms with your vendor.
5. If your vendor charges an extra fee for bouncing a check, enter a *Bill* (or use *Write Checks*) and code the charge to the Bank Service Charge account.
6. If you bounce a payroll check, use the same process as described. It is good practice, and may be required by law, to reimburse your employee for any bank fees incurred as a result of your mistake.

Reconciling Credit Card Accounts and Paying the Bill

If you use a credit card liability account to track all of your credit card charges and payments, you should reconcile the account every month just as you do with your bank account. The credit card reconciliation process is very similar to the bank account reconciliation, except that when you finish the reconciliation, QuickBooks asks you if you want to pay the credit card immediately or if you want to enter a bill for the balance of the credit card.

National Bank
Visa Gold

Statement Date:	Account Number:
2/28/2015	4444-5555-6666-7777

Make checks payable to:

National Bank Visa
P.O. Box 522
San Jose, CA 94326

Due Date:	Minimum Due:
3/31/2015	$12.00

New Balance:	Amount Enclosed:
$139.81	

Return top portion with payment

Reference Number	Posting Date	Description of Transaction	Debits	Credits and Payments
123456	2/7/2015	Payment - Thank You		2,152.00
234567	2/15/2015	Jones Office Supply	86.48	
345678	2/20/2015	Rodriuez Rentals	35.40	

Previous Balance	-	Payments	+	New Charges	+	Finance Charges	=	New Balance
$2,152.00		$2,152.00		$121.88		$17.93		$139.81

Figure 5-25 National Bank Visa credit card statement

Use the National Bank Visa Gold credit card statement shown in Figure 5-25 to reconcile your account.

COMPUTER PRACTICE

Step 1. Select the **Banking** menu and then select **Reconcile.**

Step 2. On the Begin Reconciliation window, enter the information from the Credit Card statement as shown in Figure 5-26. Click **Continue.**

Select an account to reconcile, and then enter the ending balance from your account statement.

Account 22000 · National Bank V... last reconciled on 01/31/2015.

Statement Date 02/28/2015

Beginning Balance 2,152.00 What if my beginning balance doesn't match my statement?

Ending Balance 139.81

Enter any finance charge.

Finance Charge	Date	Account	Class
17.93	02/28/2015	63400 · Interest Expense	Overhead

Locate Discrepancies | Undo Last Reconciliation | Continue | Cancel | Help

Figure 5-26 Enter your credit card statement information on the Begin Reconciliation window

Step 3. Click each cleared transaction in the *Reconcile Credit Card* window as you match it with the credit card statement.

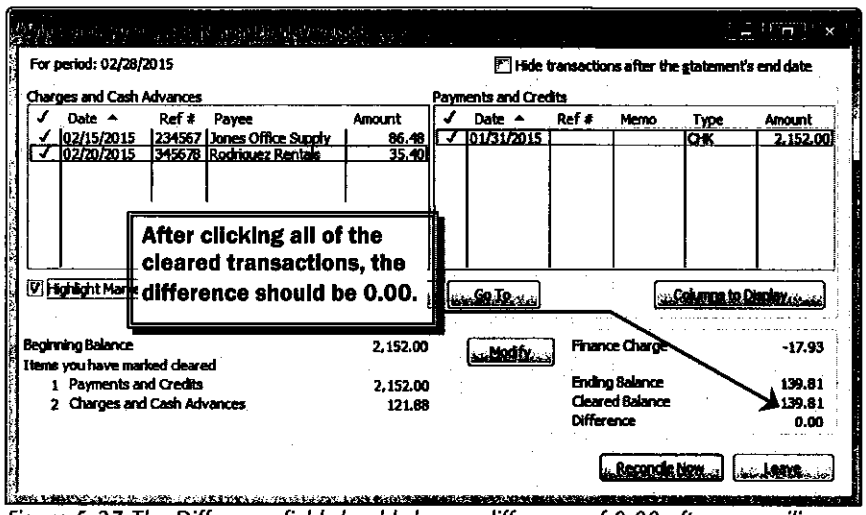


Figure 5-27 The Difference field should show a difference of 0.00 after reconciling

Step 4. Verify that the *Difference* field shows **0.00** (see Figure 5-27). If it doesn't, look for discrepancies between your records and the credit card statement.

Step 5. Verify that your screen looks like Figure 5-27 and click **Reconcile Now.**

Step 6. On the *Make Payment* dialog box, click to select **Enter a bill for payment later** and click **OK** (see Figure 5-28).

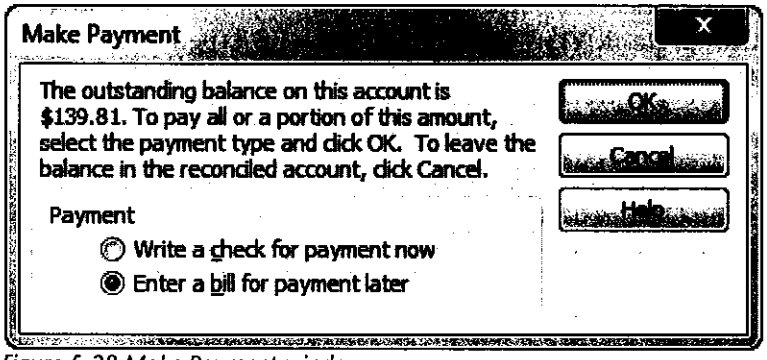


Figure 5-28 Make Payment window

Step 7. On the *Select Reconciliation Report* window, click **Close.** Normally you would select **Both** and then click **Print.** However, for this exercise, skip this step. See page 144 for more information about Bank Reconciliation reports.

Step 8. Enter the additional information to complete the **Bill** for the VISA payment as shown in Figure 5-29.

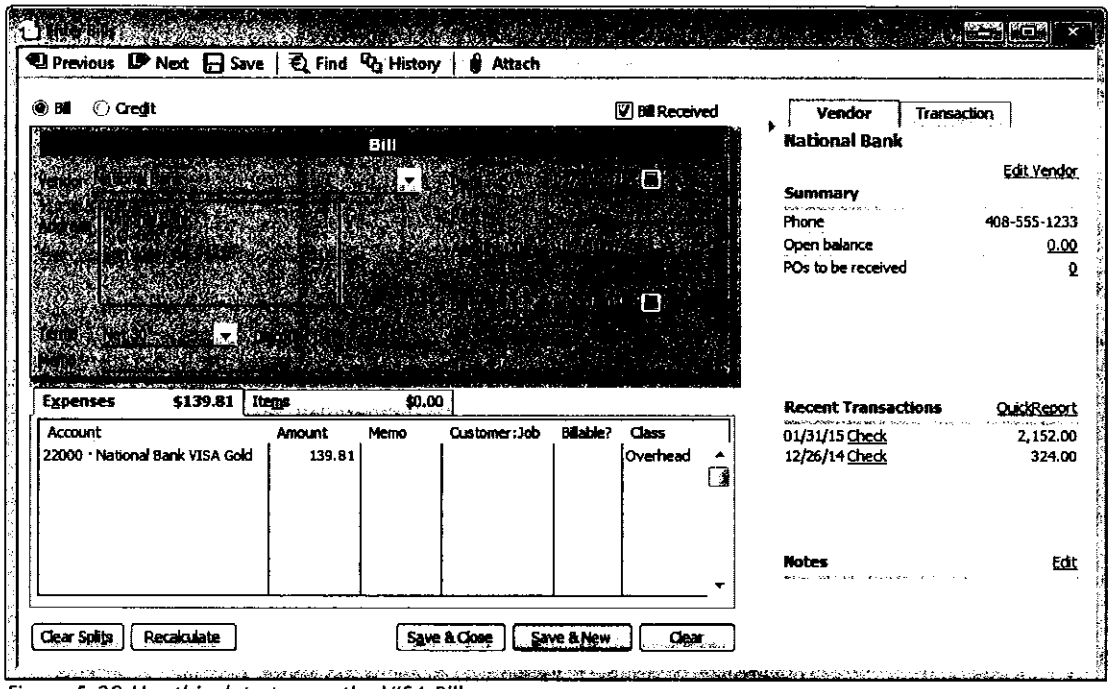


Figure 5-29 Use this data to pay the VISA Bill

> **The accounting behind the scenes:**
> QuickBooks selects the **National Bank VISA Gold** account on the Expenses tab. This reduces the Credit Card liability account (debit) and increases Accounts Payable (credit).
> **Note:**
> Although the bill in Figure 5-29 includes the Overhead class, the transaction will not affect the **Profit & Loss by Class** report because the bill does not post to any income or expense accounts.

Step 9. Click **Save & Close** to record the Bill.

This bill for $139.81 will display in the *Pay Bills* window the next time you select **Pay Bills** from the *Vendor* menu.

> **Important tip for partial payments of credit card bills:**
> If you don't want to pay the whole amount due on a credit card, don't just change the amount in the *Pay Bills* window. Instead, edit the original *Bill* to match the amount you actually intend to pay. By changing the *Bill*, you reduce the amount that is transferred out of the Credit Card account (and into A/P) to the exact amount that is paid. This way, the amount you don't pay remains in the balance of the Credit Card liability account and will match the account balance on your next credit card statement.

Online Banking

The QuickBooks Online Banking feature allows you to process online transactions, such as payments and transfers, and download bank transactions into your QuickBooks file. Downloaded transactions save you time by decreasing manual entry and increasing accuracy. It is important to review each downloaded transaction to avoid bringing errors into your company file.

Online Banking is secure. QuickBooks uses a secure Internet connection and a high level of encryption when transferring information from your financial institution.

Online Banking Setup

To begin to use Online Banking, you will need to set up the appropriate accounts to communicate with the bank. Steps vary by institution. To complete this process, refer to the QuickBooks help files or the video tutorial.

Processing Online Transactions

You may have the option to enter online transactions, such as online payments, bill payments, or transfers (depending on your financial institution). Figure 5-30 displays an example of an online payment. You can create an online payment by opening the **Write Checks** window and checking **Online Payment**. Notice that there are several differences between a standard check form and an online payment form. For example, the check number field displays the word *SEND*.

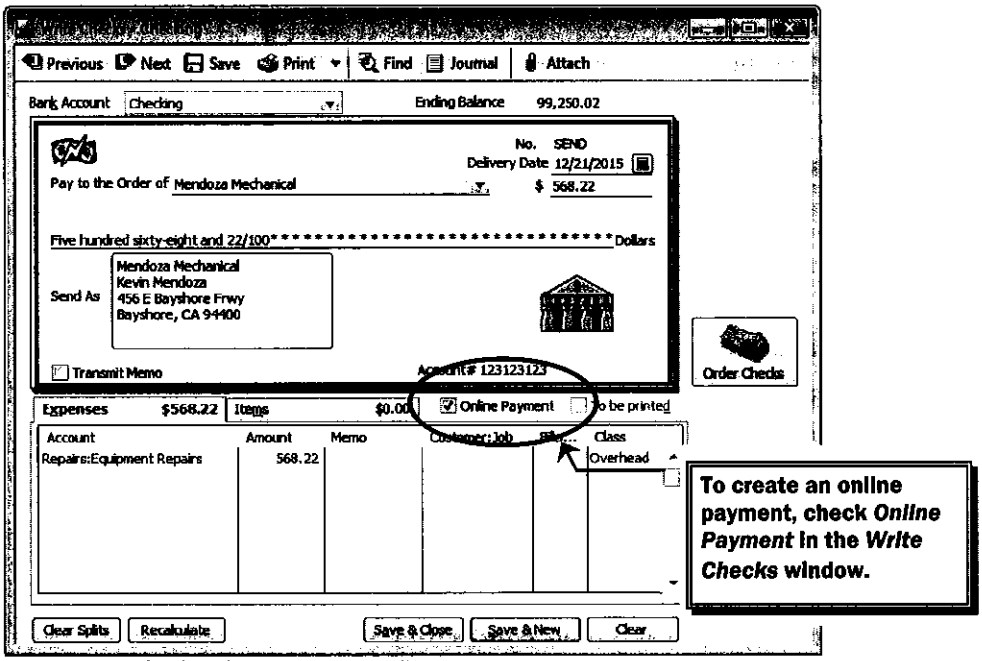


Figure 5-30 Check to be sent as an Online Payment

After saving an online payment, the transaction is queued up in the *Online Banking Center*. By clicking the *Send/Receive Transactions* button in the *Online Banking Center*, you can send the online payments and other online transactions to, as well as download transactions from, your financial institution.

Your financial institution may require additional steps. Follow any guidelines given after clicking the *Send/Receive Transactions* button. Do not click the *Send/Receive Transactions* button now.

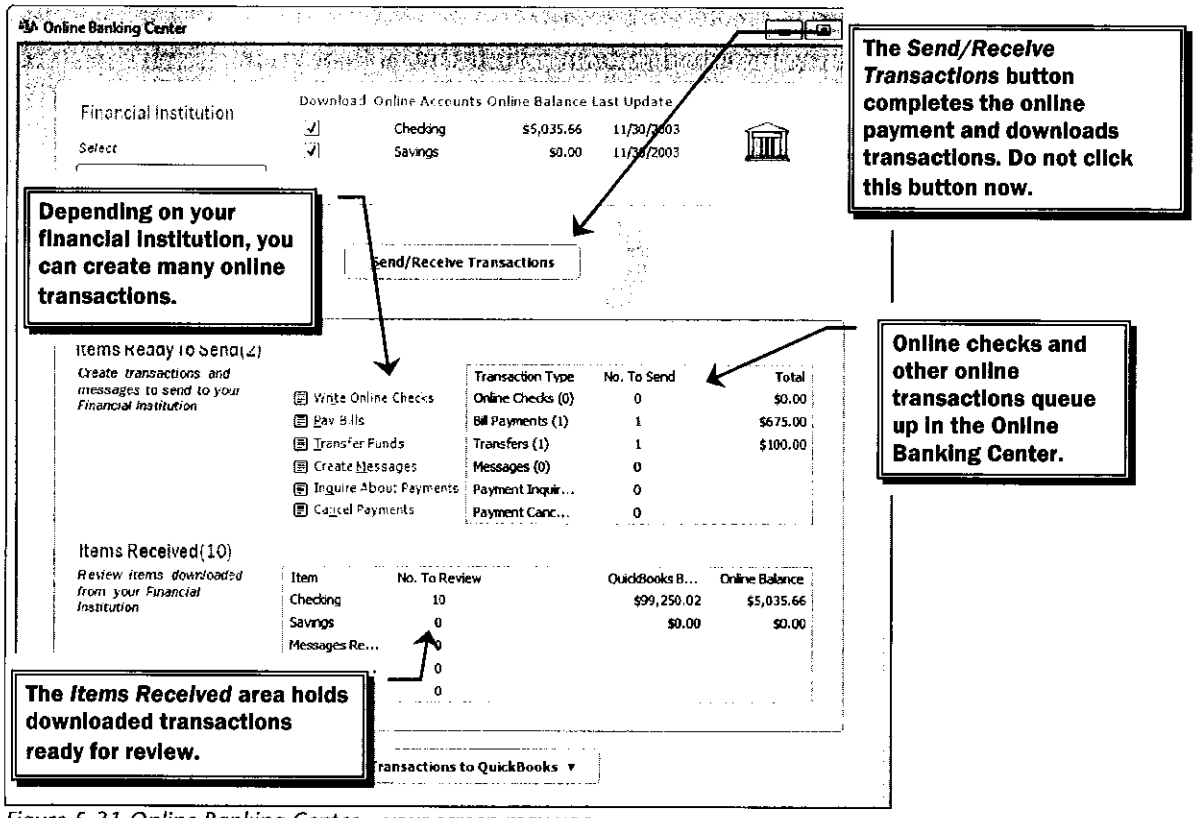


Figure 5-31 Online Banking Center – your screen may vary

Review Questions

Select the best answer(s) for each of the following:

1. When the *Beginning Balance* field on the *Begin Reconciliation* window doesn't match the beginning balance on the bank statement, you should:
   a) Call the bank.
   b) Change the amount in QuickBooks to match the bank's amount.
   c) Click **Locate Discrepancies** in the *Begin Reconciliation* window. Click **Discrepancy Report** and/or **Previous Reports** to research what has been changed since the last reconciliation. Then fix the problem before reconciling.
   d) Select the **Banking** menu and then select **Enter Statement Charges.**

2. Which statement is false?
   a) You can enter bank service charges using *Enter Statement Charges.*
   b) You can enter bank service charges on the *Begin Reconciliation* window.
   c) You can enter bank service charges using the *Splits* button on a register transaction.
   d) You can enter bank service charges using *Write Checks* before you start your reconciliation.

3. When you find an erroneous amount on a transaction while reconciling, correct the amount by:
   a) Selecting the **Banking** menu and then selecting **Correct Error.**
   b) Double-clicking on the entry and changing the amount on the transaction.
   c) Selecting the entry in the **Reconcile** window, then clicking **Go To** and changing the amount on the transaction.
   d) Performing either b or c.

4. To properly record a voided check from a closed accounting period:
   a) Delete the check in the register.
   b) Make a deposit in the current period and code it to the same account as the original check you want to void. Then delete both transactions in the **Reconciliation** window.
   c) Find the check in the register, select the **Edit** Menu, and then select **Void Check**.
   d) Change the amount of the check to zero.
5. Which of the following columns cannot be displayed in the *Checks and Payments* section of the *Reconcile* window?
   a) Check #.
   b) Class.
   c) Date.
   d) Payee.

Bank Rec-Problem 1

APPLYING YOUR KNOWLEDGE

Restore the **BankRec-12Problem1.QBM** file.

1. Using the sample bank statement shown below, reconcile the checking account for 01/31/2015.

Business Checking Account

Statement Date: **January 31, 2015** *Page 1 of 1*

Summary:

Previous Balance as of 12/31/14:		$	18,283.60
Total Deposits and Credits	+	$	4,561.08
Total Checks and Debits	-	$	8,076.12
Statement Balance as of 1/31/15:	**=**	**$**	**14,768.56**

Deposits and Other Credits:

DEPOSITS

Date	Description		Amount
12-Jan	Customer Deposit	$	1,709.53
30-Jan	Customer Deposit	$	2,848.27
	2 Deposits:	**$**	**4,557.80**

INTEREST

Date	Description		Amount
31-Jan	Interest Earned	$	3.28
	Interest:	**$**	**3.28**

Checks and Other Withdrawals:

CHECKS PAID:

Check No.	Date Paid		Amount
325	2-Jan	$	324.00
326	7-Jan	$	276.52
327	17-Jan	$	128.60
6001**	25-Jan	$	3,200.00
6003**	25-Jan	$	142.00
	5 Checks Paid:	**$**	**4,071.12**

OTHER WITHDRAWALS/PAYMENTS

Date	Description		Amount
31-Jan	Transfer	$	4,000.00
	1 Other Withdrawals/Payments:	**$**	**4,000.00**

SERVICE CHARGES

Date	Description		Amount
31-Jan	Service Charge	$	5.00
	1 Service Charge:	**$**	**5.00**

Figure 5-32 Bank statement for January 31, 2015

2. Print a **Reconciliation Detail** report dated 1/31/2015.

3. On **02/12/2015**, Maria Cruz's payment bounced (check #9563, received on 1/27/15 for Invoice #2015-105). The amount of the check was **$880.00.** The bank charged you an NSF Fee of **$10.00.** Using this information, record the following:
   a) Enter the bounced check and NSF fee your bank charged you in your check register by using **Cruz, Maria:Branch Opening** as the *Payee.*
   b) Unapply the original payment for *Invoice #2015-105* and then apply this same payment to the bounced check transaction you just created.
   c) Create an *Other Charge* item called **NSF Charge** with an amount of $20.00. The description should read ***"NSF Service Charge for Bounced Check #."*** Use the **Non** sales tax code, and associate the item with the **Bank Service Charge** expense account.
   d) Create Invoice ***#2015-105B*** dated ***2/12/2015*** and code it to the **Walnut Creek** class for the **Cruz, Maria:Branch Opening**. Select the ***NSF Charge Item*** and charge Maria Cruz's job **$20.00** for the bounced check. Change the *Terms* to **Due Upon Receipt** for this *Invoice* only.
4. Enter the transactions necessary to record the receipt and redeposit of Maria Cruz's replacement check for $880.00 (Check ***#9588***) that did not include the bounce charge. Date the payment ***02/14/2015*** and apply it to invoice **#2015-105**. Date the deposit on ***02/14/2015***.
5. Using the sample bank statement shown below, reconcile the checking account for 02/28/2015.

Business Checking Account

Statement Date: **February 28, 2015** *Page 1 of 1*

Summary:

Previous Balance as of 1/31/15:		$	14,768.56
Total Deposits and Credits: 6	+	$	5,720.20
Total Checks and Debits: 7	-	$	4,567.76
Statement Balance as of 2/28/15:	=	**$**	**15,921.00**

Deposits and Other Credits:

DEPOSITS

Date	Description		Amount
3-Feb	Customer Deposit	$	119.08
4-Feb	Customer Deposit	$	2,460.13
10-Feb	Customer Deposit	$	809.03
11-Feb	Customer Deposit	$	753.41
13-Feb	Customer Deposit	$	695.99
14-Feb	Customer Deposit	$	880.00
	6 Deposits:	**$**	**5,717.64**

INTEREST

Date	Description		Amount
28-Feb	Interest Earned	$	2.56
	Interest:	**$**	**2.56**

Checks and Other Withdrawals:

CHECKS PAID:

Check No.	Date Paid		Amount
329	14-Feb	$	2,152.00
330	15-Feb	$	377.28
331	24-Feb	$	375.00
332 **	28-Feb	$	645.00
6004	2-Feb	$	123.48
	5 Checks Paid:	**$**	**3,672.76**

OTHER WITHDRAWALS/PAYMENTS

Date	Description		Amount
12-Feb	Returned Item	$	880.00
12-Feb	NSF Charge	$	10.00
	2 Other Withdrawals/Payments:	**$**	**890.00**

SERVICE CHARGES

Date	Description		Amount
28-Feb	Service Charge	$	5.00
	1 Service Charge:	**$**	**5.00**

Figure 5-33 Bank statement for February 28, 2015

6. Print a *Reconciliation Detail* report dated 02/28/2015.
7. Print a customer *Statement* for Maria Cruz's Branch Opening job for the period 01/1/2015 through 02/28/2015.